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January 28, 2005

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station – 2nd Floor
Boston, Massachusetts 02110

Re: City of Cambridge, D.T.E. 04-65

Dear Secretary Cottrell:

Please find attached the Initial Brief of the Cambridge Electric Light Company d/b/a NSTAR Electric in the above-referenced proceeding. If you have any questions regarding the filing, please feel free to contact me or Jack Habib.

Very truly yours,

David S. Rosenzweig

David S. Rosenzweig

Enclosures

cc: John Shortsleeve, Esq.
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COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Petition of the City of Cambridge Regarding the Purchase of Street Lighting Equipment from Cambridge Electric Light Company	)	D.T.E. 04-65

INITIAL BRIEF OF NSTAR ELECTRIC

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Date: January 28, 2005

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INITIAL BRIEF OF NSTAR ELECTRIC

I. INTRODUCTION

On June 16, 2004, the City of Cambridge (the "City") submitted to the Department of Telecommunications and Energy (the "Department") a Petition to resolve a dispute between the City and Cambridge Electric Light Company d/b/a NSTAR Electric ("NSTAR Electric" or the "Company") regarding the City's proposed purchase of streetlighting equipment now owned by the Company. On October 4, 2004, the City filed an amended Petition (the "Amended Petition") with the Department.[1] Both the Petition and the Amended Petition were filed pursuant to G.L. c. 164, § 34A ("Section 34A"), which governs the rights and obligations of municipalities seeking to purchase streetlights from an electric company. Under Section 34A, the Department has authority to resolve disputes over the compensation to be paid to an electric company for the transfer of ownership of streetlight equipment. G.L. c. 164, § 34A(d).

For the reasons set forth below, the Department should deny the City's Amended Petition as it relates to the City's proposed purchase price for the streetlight equipment. The City is the only municipality in the Company's service territory, and therefore, the

1 For purposes of this brief, the Company will consider the City's Amended Petition to be the operative pleading in terms of the issues presented to the Department in this proceeding.

Company's valuation is properly based on the unamortized investment (net of salvage value) that is recorded on the Company's books of account. Accordingly, consistent with the requirements of Section 34A and Department precedent, the Department should determine that the Company's valuation produces the appropriate purchase price for streetlight equipment located in the City of Cambridge.

II. PROCEDURAL HISTORY

The Company filed an Answer to the City's original Petition on June 30, 2004. On August 26, 2004, the City filed a letter with the Department stating that the City and the Company had narrowed the issues raised in the Petition to the issue of the proper compensation to be paid by the City for the streetlight equipment. On September 17, 2004, the Department conducted a procedural conference during which the Department requested that the City file an amended petition to outline more clearly the issues in dispute (September 20, 2004 Hearing Officer Memorandum at 1). The Department also requested that the Company submit a substantive response to the City's Amended Petition (id.). The City filed the Amended Petition on October 4, 2004 and, in response, the Company filed an Amended Answer on October 19, 2004.

The Department conducted an evidentiary hearing on January 14, 2005. At the hearing, the City presented Paul L. Chernick, President of Resource Insight, Inc. and the Company presented Christine L. Vaughan, Manager of Regulatory Requirements for NSTAR. In total, the record consists of 134 exhibits, including the Company's responses to record requests issued by the Department and the City.

III. STANDARD OF REVIEW

As part of the Electric Restructuring Act of 1997, the Legislature authorized municipalities to purchase streetlights owned by an electric company and, in addition, delineated the requirements for compensation to the electric company, as follows:

> Any municipality exercising the option to convert its street lighting service pursuant to subsection (a) shall be required to compensate the electric company for its unamortized investment, net of any salvage value obtained by the electric company under the circumstances, in the lighting equipment owned by the electric company in the municipality as of the date the electric company receives notice of such exercise pursuant to subsection (a). In meeting this requirement, the municipality may acquire all or any part of such lighting equipment of the electric company upon the payment of the unamortized investment allocable to such acquired equipment.

G.L. c. 164, § 34A(b) (emphasis added).

In prior proceedings involving the sale of streetlights to municipalities, the Department has found that "unamortized investment is equal to the book value of gross plant in service, net of accumulated depreciation." Joint Petition of the Towns of Edgartown, Harwich and Sandwich, D.T.E. 01-25, at 5 (2001); Petition of the Towns of Lexington and Acton, D.T.E. 98-89, at 3 (1998). Because the calculation of a distribution company's unamortized investment in streetlighting equipment is heavily dependent on the availability and specificity of historical data at the municipal level, the Department has generally approved purchase prices based on case-specific methodologies, rather than by applying a "one-size-fits-all" methodological approach. See D.T.E. 01-25, at 5-7; D.T.E. 98-89, at 3-4; Petition of the City of Waltham, D.T.E. 02-11, at 10-12 (2002).

IV. DESCRIPTION OF VALUATION PROPOSALS

A. NSTAR Electric's Valuation

In this case, the community seeking to acquire streetlight equipment from the Company is the sole municipality in the Company's service territory. As a result, the Company's records of account present the Department with the requisite "town-specific" information necessary for valuation of the streetlight equipment subject to sale to the City of Cambridge. See D.T.E. 01-25, at 6-7. The Company records amounts for gross investment, accumulated depreciation and the cost of early retirements consistent with Generally Accepted Accounting Principles, industry practice and regulatory standards (Exh. NSTAR-CLV-AFF at ¶¶ 9-10), including the accounting requirements of the Department.[2] Thus, in this case, the Company calculated its valuation by taking figures directly from its records of account as of the valuation date (Exh. NSTAR-CLV at 10; Exh. NSTAR-CLV-AFF at ¶ 9; Tr. 1, at 72). Based on the Company's books of account, the Company valued the streetlight equipment at $1,724,206.33 as of December 31, 2003 (Exh. NSTAR-1; Exh. NSTAR-CLV-AFF). The Company also provided an updated valuation as of September 30, 2004, which totaled $1,624,711.25 (Exh. NSTAR-2).[3]

As demonstrated on the record, the Company records the original installed cost of Cambridge streetlighting equipment to FERC Account 373 (Street Lighting and Signal Systems) (Exh. NSTAR-CLV at 10; Exh. NSTAR-CLV-AFF at ¶ 11; Exh. City-1-16). A sub-account of FERC Account 108 (Accumulated Provision for Depreciation of Electric Utility Plant) contains the total accumulated depreciation for streetlighting equipment (Exh. NSTAR-CLV at 10; Exh. NSTAR-CLV-AFF at ¶ 14; Exh. City-1-9; RR-DTE-2). These amounts of total streetlight-related original cost and accumulated deprecation are maintained on the Company's PowerPlant fixed asset accounting system (Exh. DTE-1-5;

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2 As a regulated electric distribution company, NSTAR Electric is subject to numerous regulatory, financial and accounting reviews, including annual audits by external auditors and separate, periodic audits by the Federal Energy Regulatory Commission ("FERC") (Exh. NSTAR-CLV at 7-8; Tr. 1, at 11).

3 The Company and the City have discussed the possibility of the Company's unamortized investment being further updated from the information provided in Exhibit NSTAR-2 to reflect the Company's unamortized investment in the equipment since September 30, 2004. Accordingly, the Company is seeking the Department's approval of the Company's methodology, not a specific purchase price.

Exh. DTE-1-5 (Att.) at 4; RR-DTE-2). The amount recorded in FERC Account 373, less the amount recorded in the streetlighting sub-account within FERC Account 108, equals the unamortized investment for all streetlighting equipment located in the City of Cambridge, including municipal lights, private lights and lights serving the former Metropolitan District Commission ("MDC") (Exh. NSTAR-CLV at 10; Exh. NSTAR-CLV-AFF at ¶ 15).

In terms of the two major components of the valuation, i.e., gross plant value and accumulated depreciation, the Company has generated the valuation based on the actual booked amounts directly relating to streetlighting equipment and recorded each year. The gross plant value (or original installed cost) recorded on the Company's books for streetlighting equipment is the net total of actual gross plant additions, retirements, transfers and adjustments (Exh. NSTAR-1; Exh. NSTAR-2). Consistent with 18 C.F.R. Part 101, the accumulated depreciation balance recorded on the Company's books at the end of each year is the net result of the following components:

$$DR_e = DR_b + (AGP * Rate) – RP - COR + SAL$$

Where:

DR_e = Depreciation reserve ending balance
DR_b = Depreciation reserve beginning balance
AGP = Average Gross Plant
Rate = Department approved depreciation rate
RP = Original Cost of plant retired in the period
COR = Cost of Removal related to retired plant
SAL = Salvage value of plant retired

(Exh. NSTAR-CLV at 19; Exh. City-1-9). Accordingly, the Company's depreciation reserve is a function of actual construction costs incurred, Department-approved depreciation rates, actual asset retirements and the actual cost of removal and salvage value relating to any retired plant.

In calculating accumulated depreciation, the Company relies exclusively on Department-approved depreciation rates that are specific to the Cambridge streetlighting accounts (Exh. NSTAR-CLV at 8, 19, n.3; Exh. CAM-4).[4] The Company's allowed depreciation rates are established during general base rate proceedings and were most recently approved in Cambridge Electric Light Company, D.P.U. 92-250 (Exhs. NSTAR-CLV at 8; Exh. City-1-3(b)). The Department's approval in that case followed an investigation of a comprehensive depreciation study prepared by the Company's expert witness (Exh. NSTAR-CLV at 8; Exh. City-1-3(a); Exh. City-1-3(b)). Thus, the Company does not exercise any discretion in the rate that is used to depreciate fixed streetlighting assets (Exh. NSTAR-CLV at 8).

To disaggregate the value of MDC and privately owned streetlight facilities from the value of Cambridge streetlighting equipment to be purchased by the City, the Company calculated the portion of its total (streetlight) accumulated depreciation attributable to each vintage-year's equipment to account for the relative age of the equipment being purchased (Exh. NSTAR-CLV at 10; Exh. NSTAR-CLV-AFF at ¶ 17; Exh. DTE-1-1; see also Exh. NSTAR-1 and Exh. NSTAR-2). The Company performed this calculation using its fixed capital accounting software system, which allocates the depreciation reserve based on Iowa curves to establish the net book value of streetlighting equipment by vintage year (Exh. NSTAR-CLV at 10; Exh. NSTAR-CLV-AFF at ¶ 11; Exh. DTE-1-1). The Company's detailed property records provided the vintage year and the customer of record for each existing light (Exh. NSTAR-CLV at 10; Exh. DTE-1-1;

4 The City's witness acknowledged this fact during his testimony (see Tr. 1, at 47, stating "[i]t's my understanding that the [C]ompany uses approved depreciation rates.").

Exh. City-1-2(a)). Using this information, the Company apportioned the book value of individual vintage years to the three streetlighting customer groups (i.e., City, private and MDC (Exh. NSTAR-CLV at 10; Exh. DTE-1-11(b))). As noted below, the results of this calculation were also used by the City in deriving its valuation (see Exh. CAM-PLC at 11-12).

B. The City's Valuation

Rather than using the actual amounts recorded on the Company's books for unamortized investment and accumulated depreciation, the City developed a "proxy" value using a methodology that the Department has used only when: (1) one or more communities within a larger service territory are seeking to purchase streetlighting equipment from an electric utility; and (2) the electric distribution utility has been unable to demonstrate that its proposed methodology represents the net book value of the specific streetlighting equipment being acquired by the municipality. D.T.E. 01-25, at 6-7. Specifically, the City valued the streetlighting equipment to be acquired by using a methodology that attempts to recreate the net value of streetlighting plant on a year-by-year basis, under the assumptions that:

(1) gross plant in service at the end of each year is equal to the previous year's balance (starting in 1942), plus the current year's additions (and any transfers or adjustments) and minus the current year's retirements;

(2) each year's depreciation is the product of the current year's depreciation rate and average gross plant balance, which in turn is the average of year-end gross plant in the current and previous years;

(3) the beginning balance of the depreciation reserve in 1942 is assumed to be one-half the gross plant in that year and each year's final depreciation reserve is the previous years' reserve, plus the current year's depreciation, minus current retirements; and

(4) each year's net plant is the year-end gross plant in service less year-end depreciation reserve (Exh. CAM-PLC at 11; Exh. CAM-5).

The City then allocated the Company's net plant, as calculated by Mr. Chernick, to the streetlighting equipment to be purchased by the City, by multiplying the Company's total net streetlighting plant by 0.78, representing the portion of the Company's total streetlighting equipment serving the City (Exh. CAM-PLC at 11-12).

In developing the proxy value, the City included only depreciation expense and retirements recorded in each year as the basis for calculating the Company's accumulated depreciation, without including any value for net salvage costs (Tr. 1, at 40). Thus, the City's methodology does not account for the Company's net salvage costs, which are a necessary component of accumulated depreciation and, over time, have been a significant factor in the Company's accumulated depreciation balance (Exh. NSTAR-CLV at 25-28; Exh. NSTAR-CLV-2).

V. THE COMPANY'S VALUATION IS CONSISTENT WITH G.L. c. 164, § 34A, DEPARTMENT PRECEDENT AND APPROVED ACCOUNTING AND RATEMAKING PRACTICES.

A. The Company Has Appropriately Used Amounts Recorded on the Company's Books to Value its Streetlighting Equipment.[5]

The Company's valuation of the streetlighting equipment to be acquired by the City is not only consistent with Section 34A and Department precedent, it is mandated. Section 34A sets two requirements for the valuation of streetlighting equipment being acquired from an electric utility: (1) the municipality exercising the option to purchase its streetlighting "shall be required to compensate the electric company for its unamortized investment, net of any salvage value;" and (2) in meeting this requirement, the municipality must pay for the "unamortized investment allocable to such acquired

[5] This section responds to the specific request of the Hearing Officer that the parties address the issue of whether the Company's methodology complies with applicable law and Department precedent (Tr. 1, at 171).

equipment." G.L. c. 164, § 34A(b). Accordingly, in resolving a dispute concerning the valuation of streetlighting equipment, the statute has established a two-step process that requires: (1) a calculation of the amount of the Company's actual unamortized investment in streetlighting equipment, net of salvage value; and (2) an allocation of that amount to the specific equipment being acquired by the municipality.

Streetlighting plant and the accumulated depreciation associated with streetlighting plant are typically recorded on utility books on a system-wide basis. Thus, when one or more communities within a larger service territory are seeking to purchase streetlighting equipment from a utility, the valuation of the equipment being acquired must be determined by: (1) allocating the actual (system-wide) net book value of streetlighting equipment to the communities seeking to acquire the equipment; or (2) developing a proxy valuation using the utility's own historical data to build a "town-specific" net book value amount from the ground up.

In prior cases, the Department has used the actual amounts recorded on a utility's books to derive the valuation where those amounts can be specifically correlated to: (1) streetlighting plant rather than distribution plant; and (2) the purchasing municipalities rather than the system as a whole. Where equipment-specific or town-specific information has not been available, the Department has scrutinized methodologies that attempt to "allocate" system-wide amounts because these methodologies could result in a calculation of cost that may be affected by streetlight investments and retirements in municipalities not involved in the sale. Thus, the Department has not articulated a "one-size-fits-all" methodological approach to pricing streetlighting equipment requiring the use of a proxy valuation in all cases, but rather the

Department's precedent expresses a preference for using actual and specific data on gross plant and accumulated depreciation to the extent that it is available. For example:

- In Commonwealth Electric Company, D.T.E. 01-25, the dispute centered on the utility's proposal to: (1) determine a "theoretical depreciation reserve" for system-wide streetlighting equipment by vintage; and (2) allocate the theoretical reserve to the existing streetlights in the purchasing towns. D.T.E. 01-25, at 3. This allocation methodology was proposed because the company did not have "town-specific" accumulated depreciation data. Id. at 4. The Department found that the proposed allocation methodology was "not reasonable" because: (1) it automatically increased the selling price of streetlights by a cost for early retirements whether or not early retirements actually took place in the towns; (2) it caused the selling price to be influenced by factors extraneous to the towns; and (3) it did not permit over-depreciated streetlights to have a negative value. Id. at 6. In this case, there is no dispute that the depreciation reserve recorded on the Company's books is related to the facilities in the purchasing town because the City is the only municipality in the Company's service area and the City has arrived at the same allocation of net book value to the MDC and privately-owned facilities.

- In Boston Edison Company, D.T.E. 98-89, the dispute centered on the company's proposal to allow the use of a composite depreciation rate for distribution plant for a number of years in the analysis because it did not book its costs using a specific depreciation rate for streetlighting plant in those years. In this case, there is no dispute that the Company has used a depreciation rate that is specific to streetlighting equipment.

- In Boston Edison Company, D.T.E. 02-11, the dispute focused on the company's methodology for allocating its booked costs for its primary streetlighting equipment (e.g., poles, fixtures and luminaries) to its ancillary streetlighting accounts (e.g., conduits, transformers and conductors) to calculate the value of ancillary equipment. D.T.E. 02-11, at 8. This allocation was necessary because the company did not track separately the amounts booked to the ancillary accounts for municipal and commercial streetlights. The Department determined that the company's proposed allocation methodology was not reasonable because the age and vintage of the Company's ancillary equipment were dissimilar to those associated with the primary streetlighting accounts. Id. at 10. In this proceeding, there is no dispute regarding the Company's allocation of costs between its primary streetlighting accounts and its ancillary accounts.

The Department's findings in previous cases demonstrate that a proxy determination of unamortized investment is used only when actual data is not available, and in the absence of a demonstration by the distribution company that its proposed methodology is reasonable in terms of ensuring that the purchase price represents the net book value of the specific streetlighting equipment being acquired by the municipality. The record in this proceeding demonstrates unequivocally that the Company has produced a valuation that is based solely on its original cost data, including additions, retirements, transfers and adjustments, as well as accumulated depreciation data as recorded on its audited books of account for streetlights subject to sale to the City of Cambridge (Tr. 1, at 72; Exh. NSTAR-1; Exh. NSTAR-2; Exh. NSTAR-CLV at 10; Exh. City-1-9; Exh. DTE-1-5; Exh. DTE-1-5 (Att.); RR-DTE-2). In future cases, where the distribution company does not have available municipal-level data on its books for the streetlighting account, it is essential that the Department apply a methodology that includes all relevant cost components affecting net book value (i.e., gross plant and accumulated depreciation, including net salvage value).

Accordingly, the record in this proceeding does not provide a basis for the Department to adopt any other valuation of the Company's streetlighting equipment. Section 34A mandates that the Company be fully compensated for the unamortized investment, net of any salvage value, for the streetlighting equipment to be purchased by the City. Given the facts of this case, any purchase price that is less than the amounts recorded on the Company's books (excluding MDC and privately owned equipment) will not adequately compensate the Company for this equipment, and therefore, will run afoul of the mandate of Section 34A. Thus, the Department should approve the Company's proposed valuation.

B. The Company's Valuation Satisfies the Requirements of G.L. c. 164, § 34A as Applied by the Department.

1. The Company's Valuation Is Consistent With Department Precedent Establishing That "Unamortized Investment" Under G.L. c. 164 Is Represented by the Company's Net Book Value.

As noted above, Section 34A requires a calculation of the amount of the Company's unamortized investment in streetlighting equipment, net of salvage value.[6] It is well-established that the term "unamortized investment" means gross plant in service (cumulative additions minus cumulative retirements) net of accumulated depreciation. Joint Petition of the Towns of Edgartown, Harwich and Sandwich, D.T.E. 01-25, at 5 (2001); Petition of the Towns of Lexington and Acton, D.T.E. 98-89, at 3 (1998). There is no dispute about this fact in this case. The City's witness acknowledged that "[t]he calculation of unamortized investment for purposes of purchasing streetlights should be consistent with the company's traditional accounting practices for tracking original investment and accumulated depreciation for ratemaking purposes" (Exh. CAM-PLC at 3; Tr. 1, at 18, 30). Mr. Chernick also acknowledged that the computation of unamortized investment requires the use of the same depreciation rates as those used in the ratemaking process (Tr. 1, at 30).[7] The record in this proceeding shows that the Company has calculated its unamortized investment, consistent with Mr. Chernick's statements, by subtracting the accumulated depreciation relating to the streetlighting

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6 This ensures that there are no gains or losses from the transaction for the Company, its customers or the purchasing municipality.

7 Mr. Chernick also recognized that he made a similar statement during the D.T.E. 01-25 proceeding where he noted that a company's unamortized investment was "the part of the original investment that has been written off using the depreciation rates approved by the Department" (Tr. 1, at 32, quoting D.T.E. 01-25, Tr. 1, at 37).

equipment from the original investment in that equipment, as recorded on the Company's audited books of account (Exh. NSTAR-CLV at 9-10).

In addition, the Company established that the "unamortized investment" is the equivalent of the "net book value" (Exh. NSTAR-CLV at 11). Although the City's witness tried to suggest that there is a distinction between the terms "unamortized investment" and "net book value," he did so without supporting evidence. For example, in response to the Company's information requests, the City's witness suggested that unamortized investment may not equal net book value when: (a) plant is being transferred, not removed; or (b) a composite distribution plant depreciation rate is being used (see Exh. City-1-12; Exh. City-1-16). Notably, neither example raised by the City is at issue in this proceeding, nor does the City make such a claim. With regard to the "transfer" issue alluded to by Mr. Chernick, the Company is unclear as to City's point, but to the extent that the City was attempting to analogize the transaction at issue in this proceeding to an affiliate transfer of streetlighting equipment, that issue is not relevant to this proceeding (see, e.g., Tr. 1 at 133-134 in which streetlighting equipment is being sold to an unaffiliated entity). Second, the Company does not use a composite distribution plant depreciation rate to calculate its unamortized investment in streetlight equipment; it uses a streetlight-account-specific depreciation rate as set by the Department (Exh. City-1-7; Exh. City-1-21; Exh. DTE-1-11; Exh. NSTAR-CLV at 19, n.3). Lastly, Mr. Chernick acknowledged that the Department's basis for determining rate base is a company's net book value (Tr. 1, at 20).

In fact, the City's witness agreed during the evidentiary hearing in this proceeding that, under utility accounting and ratemaking practices, unamortized investment and net book value are synonymous in that they are typically determined by the original cost of an investment less accumulated depreciation (Tr. 1, at 18-29). Accordingly, for purposes of determining the appropriate purchase price of streetlight equipment in this proceeding, the terms "unamortized investment" and "net book value" are synonymous (Exh. NSTAR-CLV at 11).

In that regard, there is substantial evidence in the record demonstrating that the valuation proposed by the Company is based directly on the amounts recorded on the Company's books for streetlighting, and that the Company's underlying, town-specific data supports the booked amounts (RR-DTE-2). The record also shows that, as a regulated electric distribution company, NSTAR Electric is subject to numerous regulatory, financial and accounting reviews, including annual audits by independent external auditors and separate, periodic audits by the FERC (Exh. NSTAR-CLV at 7-8; Tr. 1, at 11). Accordingly, based on the Company's books of account, the "compensation" to be paid by the City to the Company is the net book value of $1,624,711.25, as of September 30, 2004 (Exh. NSTAR-2).

2. The Inclusion of Net Salvage Costs in the Streetlight Valuation Is Required by G.L. c. 164, § 34A.

Under Department precedent, the cost of retirements is subtracted from the accumulated depreciation amount if town-specific information on the cost of early retirements is available. D.T.E. 01-25, at 6. In this proceeding, the Company presented detailed evidence demonstrating the original installed cost of Cambridge streetlighting equipment is recorded in FERC Account 373 (Street Lighting and Signal Systems) (Exh. NSTAR-CLV at 10; Exh. NSTAR-CLV-AFF at ¶ 11; Exh. City-1-16). In addition, consistent with FERC and Department accounting rules, the total amount of streetlight-related accumulated depreciation includes actual removal costs and the salvage value associated with streetlighting retirements (Exh. NSTAR-CLV at 10; Exh. NSTAR-CLV-AFF at ¶14; RR-DTE-2). This rule states that:

> At the time of retirement of depreciable electric utility plant, this account shall be charged with the book cost of the property retired <u>and the cost of removal and shall be credited with the salvage value and any other amounts recovered</u>...

FERC Chart of Accounts 18 CFR, Part 101, Account 108 (emphasis added) (Exh. NSTAR-CLV at 19).[8] The sum of the booked streetlight removal costs and the booked salvage value produces the Company's net salvage value relating to its streetlighting equipment (Exh. NSTAR-CLV at 20).

In contrast, the City's proxy valuation fails to account for these key cost components in relation to the equipment that it intends to purchase. Most importantly, the record shows that the City failed to account properly for the Company's actual net salvage costs in determining accumulated depreciation. As far as the Company can determine, the City's proxy valuation recognizes only two factors: (1) annual depreciation (AGP * Rate); and (2) the original cost of Retired Plant (RP) (Exh. CAM-5; Exh. NSTAR-CLV at 19). Thus, the City's calculation of net book value ignores the effect of cost of removal and salvage on accumulated depreciation (Exh. NSTAR-CLV at 19; Tr. 1, at 39-40).

As noted on the record, the Company historically has incurred negative net salvage costs relating to the removal of its streetlighting equipment (Exh. NSTAR-CLV at 20-21). The Department specifically recognized this in its ruling in D.P.U. 92-250

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[8] In further supplement to the record, the Company provided detailed supporting documentation regarding the activity booked contemporaneously to accumulated deprecation since 1992 (RR-DTE-2 and related attachments).

regarding the appropriate depreciation rate to be used for streetlighting equipment (Exhibit City-1-3(b)). Net salvage value becomes negative whenever the cost of removal is greater than the salvage value that is obtained (id. at 20). The record demonstrates that, on average, net salvage costs for streetlighting equipment have been negative 52 percent (or 46 percent based on the updated data in Exhibit CLV-2(Rev) for the years 1992 to 2004) of the costs of the Company's retirements (id.). Therefore, to the extent that the City's calculated purchase price ignores net salvage value as a cost component of the Company's streetlighting investment, the City has omitted a major cost input and significantly understated the net book value of the Company's streetlighting equipment (id.). In this case, the City has underestimated the net book value (and overstated the accumulated depreciation) of the Company's streetlighting equipment by approximately $1,000,000 (compare Exh. CAM-5 to Exh. NSTAR-1), which the record shows was caused by the City's failure to account for the Company's streetlighting-related net salvage costs (see Exh. NSTAR-CLV-2; Tr. 1, at 41).

In an attempt to reconcile the difference between the Company's books and Mr. Chernick's estimate, the Company showed that, even using the City's Exhibit CAM-5 as a starting point, if the City properly included the appropriate negative net salvage values in its calculations, the City's proposed purchase price would be roughly equivalent to the unamortized investment calculated by the Company based on its books of account (Exh. NSTAR-CLV at 26-27; Exh. NSTAR-CLV-2; RR-DTE-2). The Company performed this exercise, initially in Exhibit City-1-15 and Exhibit City-1-15(Rev) and later in Exhibit NSTAR-CLV-2, Exh. NSTAR-CLV-2(Rev) and RR-DTE-2, only to demonstrate that the City's efforts to reconstruct the Company's books are not only unnecessary, but also are flawed because the City failed to include net salvage costs in its calculation. The City's witness acknowledged during the proceeding that net salvage costs affect a company's accumulated depreciation balance and must be recovered by the company (Exh. NSTAR-City-1-10; Tr. 1, at 38). Accordingly, the Department should approve the Company's methodology for determining the purchase price for its streetlighting equipment because it is based on: (1) an actual accounting of costs associated with its investment in the streetlighting equipment; and (2) it properly includes net salvage costs. Moreover, in cases where a proxy method is needed because of multi-municipality distribution companies, a proxy method that includes full recovery of all associated costs is required.

VI. THE DEPARTMENT'S RULING IN THIS PROCEEDING MUST ENSURE THAT THE COMPANY IS COMPENSATED FOR ITS FULL UNAMORTIZED INVESTMENT OF THE STREETLIGHTING EQUIPMENT BEING ACQUIRED BY THE CITY.

As noted above, Section 34A establishes a two-step process for the Department to follow in settling disputes over streetlight valuations, which is: (1) a calculation of the amount of the Company's unamortized investment in streetlighting equipment, net of salvage value; and (2) an allocation of that amount to the equipment being acquired by the municipality. In combination, these provisions require the Department to establish a purchase price that fully and fairly compensates the utility for the value of the facilities, and that does not charge the municipality for amounts unrelated to the facilities it is attempting to purchase.

In this case, the Company's books of account recorded data relating to a <u>single</u> municipality, which is the City of Cambridge. In addition, the record is clear and uncontested that: (1) the Company has presented the actual accumulated depreciation reserve, less actual costs associated with retirements (rather than allocating a "theoretical" system-wide accumulated depreciation reserve to the City); (2) the Company has used a depreciation rate specific to streetlight equipment (rather than a composite depreciation rate for distribution plant); (3) the Company has appropriately and accurately allocated costs between its primary streetlighting accounts and its ancillary accounts; and (4) the Company has properly allocated the net book value associated with MDC and privately owned streetlighting equipment. Accordingly, the Company will not be fully and fairly compensated in this case, as required by Section 34A, unless the net book value recorded on the Company's books is established as the purchase price.

In prior cases, the Department has used a proxy methodology to establish a purchase price when information specific to streetlight plant and to the purchasing municipalities is not available. In doing so, the Department has recognized that there is the potential that the price charged to the municipality may not fully represent the actual net book value and that the company, therefore, will under or over-recover its unamortized investment in streetlighting equipment. D.T.E. 01-25, at 7, fn.12. In those cases, the Company's remaining customers will bear the resulting shortfall (or overpayment) through the ratemaking process. Id. The record in this proceeding shows that, in fact, other NSTAR Electric customers will indeed bear the cost of shortfalls resulting from prior Department cases (Exh. NSTAR-CLV at 36-37). The facts of this case do not justify such a result.

The Company raises this issue in the context of this proceeding because, in this case, the Company's books of account present the detailed and town-specific cost data that the Department has sought in previous proceedings. There is no reason to engage in a reconstruction of gross plant and depreciation balances when the actual data already exists on the Company's audited books. Moreover, the Company has supported its booked amounts with substantial back-up documentation (RR-DTE-2). Thus, for purposes of valuing distribution equipment that is subject to sale to an acquiring municipality, the Department should not adopt an approach that automatically involves the calculation of a proxy valuation that attempts to build a net book value amount from the ground up. In a case where there is detailed and accurate information to support the calculation of net book value, the Department should use the booked amounts to derive the valuation so that the purchase price will recover the appropriate amount of unamortized investment. Although not at issue in this proceeding, where the subject distribution company does not have actual book values for the specific equipment being purchased in a municipality, the Department should ensure that the best possible estimates for all necessary cost components are included in order to ensure full and fair compensation.[9] The key, however, is that the methodology that is applied from case to case for purchasing streetlights must be designed to ensure that the net book value is established as the standard for the proposed sale. Consistent with Section 34A, this will ensure that full and fair compensation is achieved and that the purchasing municipality, rather than the Company's other customers, pays the proper price for the transfer.

VII. CONCLUSION

NSTAR Electric has demonstrated that the net book value recorded on the

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[9] Given the various municipalities typically served by distribution companies in the Commonwealth, this is likely to be the case in most future contexts.

Company's books presents the fair and accurate amount of compensation that it should receive for the sale of streetlighting equipment to the City of Cambridge. Accordingly, the Company requests that the Department approve the Company's purchase price using the methodology set forth in Exhibits NSTAR-1 and NSTAR-2.

Respectfully submitted,

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